

**REPORT TO THE TWENTY-FIRST LEGISLATURE
STATE OF HAWAII
2002**

**IN COMPLIANCE WITH
SECTIONS 340E-31 THROUGH 340E-41,
HAWAII REVISED STATUTES
RELATING TO THE
DRINKING WATER TREATMENT REVOLVING LOAN FUND
OF THE DEPARTMENT OF HEALTH**

**PREPARED BY:
STATE OF HAWAII
DEPARTMENT OF HEALTH
ENVIRONMENTAL HEALTH ADMINISTRATION**

**ENVIRONMENTAL MANAGEMENT DIVISION
SAFE DRINKING WATER BRANCH
WASTEWATER BRANCH
NOVEMBER 2001**

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Preface

September 30, 2001

This report presents the financial position of the Drinking Water Treatment Revolving Loan Fund (DWTRLF) at June 30, 2001 and the results of operations for the fiscal year then ended. The report is divided into two sections:

Operations and Administration Section:

This section includes the introduction, major initiatives, goals and accomplishments, and compliance matters of the Program.

The Financial Section:

This section includes the discussion of internal control, program administration and statistical information, cash management, credit risk of DWTRLF, and other information.

This report was prepared by the Safe Drinking Water Branch and Wastewater Branch of the Department of Health. The accuracy of the financial statements and the completeness and fairness of their presentation are the responsibilities of the program manager. We believe the enclosed data are complete and accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the DWTRLF. All disclosures necessary to convey the maximum understanding of the Fund's financial activities have been included.

OPERATIONS & ADMINISTRATION SECTION

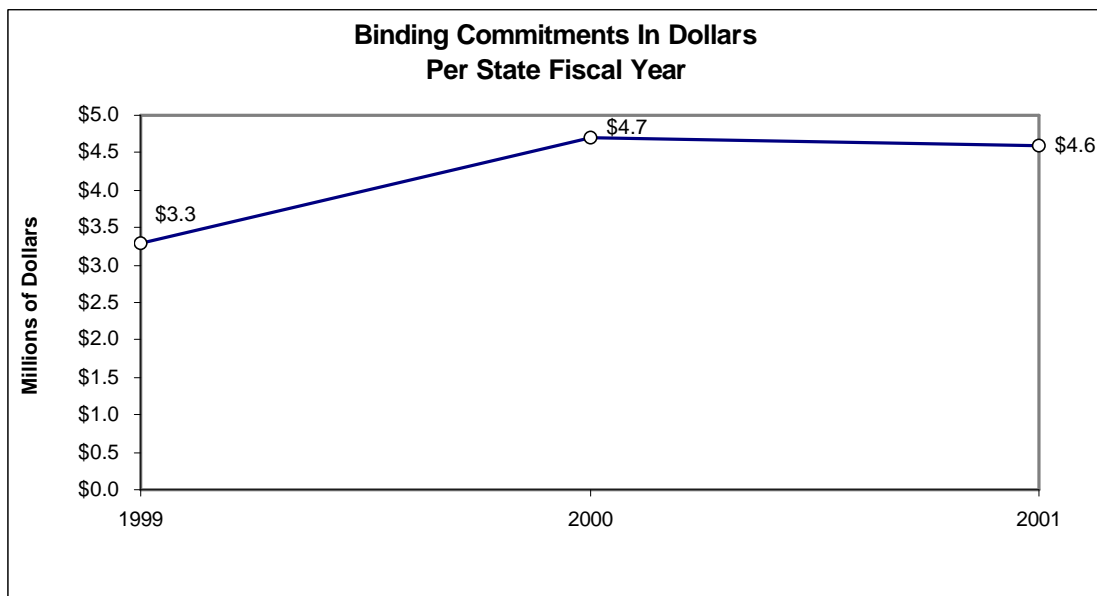
A. INTRODUCTION

The Hawaii Drinking Water Treatment Revolving Loan Fund (DWTRLF) was established by the 1997 State Legislature in order to receive the federal capitalization grants as required by the Federal Safe Drinking Water Act of 1996 Amendments. The DWTRLF is administered by the Safe Drinking Water Branch and Wastewater Branch of the Department of Health. Under the DWTRLF, the State has established several activity codes to identify the source of revenues received. The DWTRLF's primary activities include the issuing of loans for the construction of drinking water facilities and the management and coordination of the Set-Aside Programs as defined under the Safe Drinking Water Act of 1996 Amendments.

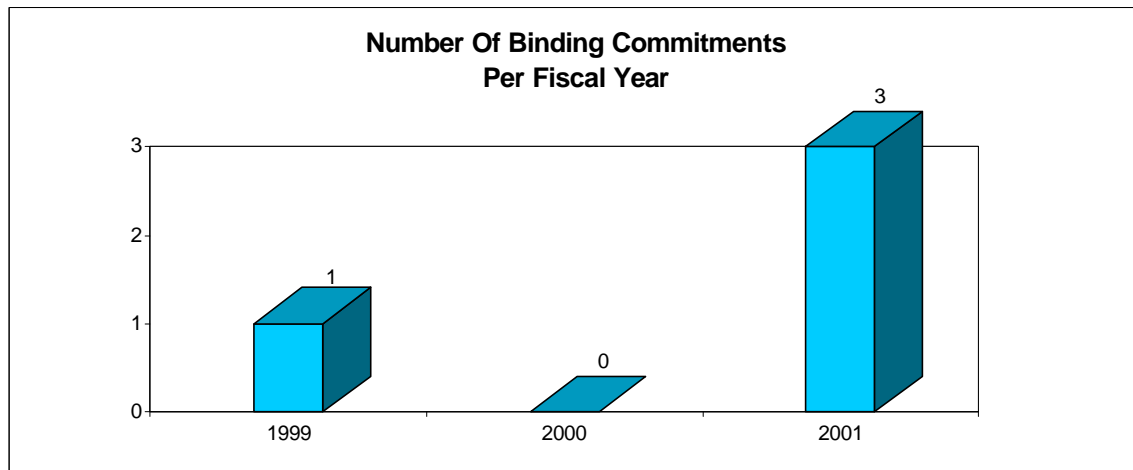
The DWTRLF program is also known as the Drinking Water Revolving Fund under Chapter 340E, Hawaii Revised Statutes (HRS) and the Drinking Water State Revolving Fund or DWSRF under Chapter 11-65, Hawaii Administrative Rules (HAR).

By helping local governments improve and expand their drinking water infrastructure, the DWTRLF helps to protect the public health and environment of Hawaii. Equally important, the DWTRLF Program plays a vital role in the development and economic vitality of Hawaii communities.

The following graphic illustrates the dollar volume of loans that DWTRLF Program executed per year:



The following graphic illustrates the number of loans executed per year:



B. MAJOR INITIATIVES

On March 24, 2001, the Department of Health (DOH) accepted federal capitalization grant funds of \$7,757,000.00. In addition, the Hawaii legislature provided match funds pursuant to Act 281, SLH 2000, Hawaii Session Laws in the amount of \$1,523,000.00, for the DWTRLF.

An overview of the Drinking Water Treatment Revolving Loan Fund for FY 2001 includes the following:

- | | |
|--|-----------------|
| 1. FFY 2000 Federal Capitalization Grant funds received: | \$ 7,757,000.00 |
| 2. Funds withdrawn from the federal Automated Clearinghouse (ACH): | \$ 1,578,910.61 |
| 3. State match funds distributed: | \$ 86.30 |

(The 6/30/01 MBPE02-B FAMIS report showed Activity Code 421 (State Match for Cap Grant) with an expenditure of \$86.30 in year to date (run page 4,837). According to P.O. 00659588, this expenditure should have been charged to Activity Code 427. Correction will be made in the future.)

- | | | |
|----------------------------------|--------------------------------|-----------------|
| 4. Executed: | Three Interim Loan Agreements: | \$ 4,693,531.00 |
| 5. Principal repayment received: | | \$ 321,756.47 |
| 6. Interest repayments received: | | \$ 145,660.33 |

7. Matching funds (for the FY 2000 Federal Capitalization Grant) provided:

\$ 1,551,400.00

The following DWTRLF projects were implemented during FY 2001:

| County | Project* | Loan Amount |
|--------|--|----------------|
| Hawaii | Saddle Road Well "A" (Interim Loan Agreement signed, Final Loan Agreement in process) | \$2.20 million |
| Hawaii | Waimea Treatment Plant Upgrades, Phase II (Interim Loan Agreement signed, Final Loan Agreement in process) | \$0.74 million |
| Kauai | Damage Repairs to Kokolau Tunnel (Interim Loan Agreement signed, Final Loan Agreement in process) | \$1.76 million |

C. GOALS AND ACCOMPLISHMENTS

The Long and Short Term Goals were enumerated in the Intended Use Plan for FY 2001 which was published for public response on April 24, 2000. The following describes the results the Program achieved relative to these stated goals:

Long-Term Goals

1. To assist the water purveyors in protecting the public health and environment of the State.

DOH continues to use the set-aside funds strategically and in coordination with the loan program to provide support for the water purveyors. Through the development of the Capacity Development, Source Water Assessment, Operator Certification programs and State Revolving Fund loan program, the State strives to implement a long term program to protect the public health and environment.

2. To assist the water purveyors in protecting the drinking water resource of the State.

DOH had a three-phase Source Water Assessment Program contract with URS Greiner-Woodward Clyde, which consisted of phase 1) plan development, phase 2) four assessments of demonstration projects, and phase 3) conducting the remaining 458 source assessments. Unfortunately due to contractual dispute, the contract was terminated after the 2nd phase. The

final phase of the contract is now being completed by the University of Hawaii, Water Resource Research Center. The project will still meet the required deadline set by the Environmental Protection Agency. DOH has also worked with its stakeholder group to develop, demonstrate and implement the Hawaii Source Water Assessment Program. In addition, DOH conducted workshops with the EPA and the National Groundwater Foundation to inform the water purveyors of protection of their water sources.

3. To assist the water purveyors in operating in compliance with the State and Federal regulations.

DOH is expanding its operators' certification requirements to include distribution system operators as required by the Safe Drinking Water Act of 1996 Amendments. By conducting training and certification of additional public water systems staff, DOH is attempting to assure that public water systems are better able to comply with state and federal regulations. DOH has solicited a three-year training contract to provide operator training.

4. To assist the water purveyors in promoting the principles of water conservation in their operations.

DOH is reevaluating this goal at this time and will appropriately address these issues according to the evaluation. DOH is working with the Environmental Protection Agency to provide more information on a conservation program.

5. To operate the DWTRLF program so that it is maintained in perpetuity.

DOH has begun discussions with the EPA Safe Drinking Water Public Water System Supervision Program Hawaii Project Officer, the DWSRF Region IX Coordinator and DWSRF Hawaii Project Officer on the development of a 10-year program projection of costs versus workload to determine the proper disposition of the set-aside funds.

DOH is also continuing to research and work with Region IX to develop and implement a software program, which will provide financial planning and tracking capabilities. DOH and EPA are working with CADMUS to conduct a programmatic assessment in late 2001.

By establishing the financial structure of the program, the State strives to provide low interest rate loans for projects that address human health problems while ensuring that the DWTRLF will serve as a long-term source of funding.

Short-Term Goals

1. The DWTRLF Program will fund projects which:
 - . protect the public health and environment of the State;
 - . protect the drinking water resources of the State;
 - . promote and encourage the principles of water conservation; and

- . encourage consolidation of small water systems with larger water systems.

All of the projects funded in FY 2001 were evaluated both for public health, environmental impact of the state and related needs within the community and were determined to be the highest priority projects available for DWTRLF funding at that time.

2. Develop DWTRLF performance tracking measures for the following:

- . Financial Management (e.g., repayment recycling rate, projected funding levels);
- . Compliance/Public Health (e.g., statewide compliance improvement); and
- . Customer service (e.g., total population served, disadvantaged communities served).

DOH is working with EPA to procure a financial and project tracking software. DOH anticipates that such software will be installed and tested in FY 2002.

3. Develop accounting management reports to track loan account, set-aside account, and administrative account activities. Develop separate management reports for each set-aside activity in the set-aside account.

DOH and EPA are working together to procure a program contractor to develop a program management and accounting system to track loan accounts, set-aside accounts and administrative account activities.

4. Review and modify loan agreement and closing documents for the DWTRLF program.

DOH has worked with State Deputy Attorney General and County of Hawaii, County of Maui, and County of Kauai's corporation counsel to develop a set of model loan agreements for DWTRLF Program. As a result of such effort, DOH was able to close two loan agreements with the County of Hawaii and one loan agreement with the County of Kauai in FY 2001.

5. Conduct management study within three years to review annual DWTRLF planning process, roles of DWTRLF sections, need for modification of memoranda of understanding, scheduling of activities, and staffing and personnel levels and training.

This is a continuation of management's effort to search for a more efficient and effective method to manage the DWTRLF.

6. Complete set-aside workplans for each set-aside activity.

DOH has integrated the set-aside program plan with the annual Public Water System Supervision program plan.

7. Work with appropriate DWTRLF program sections to complete a capacity development strategy and begin introduction to the applicants with the top projects on the IUP list.

DOH has completed financial capacity reports for the municipal water systems in FY 2001.

8. Develop a routine DWTRLF Applicant training program, including initial and follow up training programs for applicants.

DOH has provided DWTRLF loan program training to personnel of the four counties in the state.

9. Conduct DWTRLF training for applicants with the top projects on the IUP list.

DOH has been working closely with county officials to initiate the DWTRLF loan processing for the top priority projects.

10. Give higher priority to documented compliance projects when such projects are presented for DWTRLF funding.

DOH has ranked the compliance projects with top priority in the annual IUP.

11. Promulgate the administrative rules and establish fees for the Safe Drinking Water State Revolving Fund loans, and develop penalty procedures in the case of default of the loan.

The DWTRLF Program successfully amended Hawaii Administrative Rules (HAR), Chapter 11-65, "Environmental State Revolving Funds," dated May 17, 2000, to include the authority for the program to assess loan fees for the Drinking Water State Revolving Fund loans. Currently, the Rule is under review for a minor revision.

D. COMPLIANCE MATTERS

DOH has complied with the conditions of the DWTRLF operating agreement. DOH has met and will continue to be in compliance with the following conditions as described in the Operating Agreement.

1. Take payments based on payment schedule.

DOH has received payments based on the schedule included in the grant award made for FY 2000.

2. Deposit State Matching funds.

As of June 30, 2001, the State has deposited \$7,586,000.00 into the DWTRLF State Match fund account since the inception of DWTRLF.

3. Submit Biennial Report and Annual Audit.

The submission of this report will fulfill the State of Hawaii, DOH's responsibility to submit a Biennial Report in addition to the Annual Audit Report.

4. Assure that borrowers have a dedicated source of repayment.

With the State Deputy Attorney General's assistance, DOH staff has been working with the County of Hawaii, the County of Maui, and the County of Kauai municipal public water systems officials to establish the required borrowing authority. For all municipal public water systems, the expected revenue from user fees must be sufficient to repay the loan, pay operation and maintenance costs, and pay for other necessary expenses. The final version loan documents have been implemented in FY 2001.

5. Use funds in a timely and expeditious manners.

The procedures and documents for the loan program have been developed and implemented. The DWTRLF program will accelerate the pace and use of the funds in upcoming years.

6. Ensure recipient compliance with applicable federal cross-cutting authorities.

DOH has established the requirement that all recipients complete and sign a certification, certifying compliance with all applicable federal cross-cutting authorities.

7. Conduct environmental reviews.

The State's Office of Environmental Quality Control outlines and oversee the State's environmental review process. All public water systems requesting loan assistance are required to comply with the Hawaii State Environmental Review Process. In addition, the Safe Drinking Water Branch itself participates in the environmental review process for projects that concern drinking water and public water systems in the State.

FINANCIAL SECTION

The following is a summary of operations for the fiscal year ended June 30, 2001. The DOH considers the DWTRLF to be a special revenue fund. The fund was established to receive the proceeds of specific revenue sources such as Federal Capitalization Grants, State Capital Improvement Project (CIP) Appropriation for State Match, loan repayments, and interest earnings from investments. Under the DWTRLF, DOH established several accounts (activity codes) for each specific revenue source. The funds are legally restricted to expenditures for the drinking water facilities, allowable costs for the program set-aside activities under the Safe Drinking Water Act, and the administrative cost for the operation and maintenance of the DWTRLF Program.

A. INTERNAL CONTROL

The management of the DWTRLF is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments are required to assess the expected benefits and related costs of control procedures. The objective of an internal control system is to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Management is also responsible for ensuring that an adequate internal control structure is in place to ensure compliance with applicable laws and regulations related to federal and state financial assistance programs.

We believe that the DWTRLF internal accounting control adequately safeguards assets and provides reasonable assurance of proper recording of financial transactions.

B. PROGRAM ADMINISTRATION AND STATISTICAL INFORMATION

1. Drinking Water State Revolving Fund Capitalization grants:

On March 24, 2001, the Department of Health (DOH) accepted the \$7,757,000.00 capitalization grant from the Safe Drinking Water Act, FY 2000 Appropriation.

As of June 30, 2001, DOH has received \$27,367,145.00 in federal capitalization grants loan funds.

2. Executed Loan Agreements/Binding Commitments:

In FY 2001, DOH executed three various types of loan agreements totaling \$4,693,531.00 with the Department of Water Supply, County of Hawaii and Department of Water, County of Kauai (See page 3, paragraph B. Major Initiatives).

As of June 30, 2001, DOH has executed \$8,981,190.00 worth of federal capitalization grant funds and \$3,552,428.00 of state match funds for DWTRLF loans. This state match amount meets the binding commitment requirements of 40 CFR 35.2135(c).

At the end of FY 2001, the DWTRLF had \$23,587,384.49 available for loans. The balance of available funds consisted of: Capitalization Grant Fund of \$18,385,955.00, State match of \$4,033,572.00 and revolving funds of \$1,167,857.49.

There were more than \$149 million of projected needs competing for the limited resource as of June 30, 2001. DOH anticipates that some of those needs will be funded in FY 2002 and FY 2003.

3. Automated Clearinghouse (ACH) Draws:

DOH drew \$1,578,910.61 of Capitalization Grant funds from the Automated Clearinghouse (ACH) payment system. Of these funds, \$525,945.00 were used for DWTRLF loan proceeds, \$1,052,965.61 were used to fund the DWTRLF set-aside operations, and of this amount \$37,000.00 were transferred to Ground Water Protection Program.

4. State Match:

By Appropriations Act 281/2000, the 2000 State Legislature appropriated \$1,523,000 in general obligation bond funds for the purpose of providing the required state match for the Federal Fiscal Year (FFY) 1999-2000 State Revolving Fund Capitalization Grant. The required State Match was transferred to the DWTRLF in the FY 2001.

The Hawaii State law prohibits the program to use the State Capital Improvement Project (CIP) funds for administration costs. Therefore, DOH cannot disburse the funds for all the set-aside programs in a proportional manner. In order to comply with EPA's disbursement requirement, DOH obligates all the state match to loan projects and disburses the state match funds with a higher proportional ratio. DOH has maintained a greater percentage of cash draw ratio for each active capitalization grant.

5. Loan Repayments:

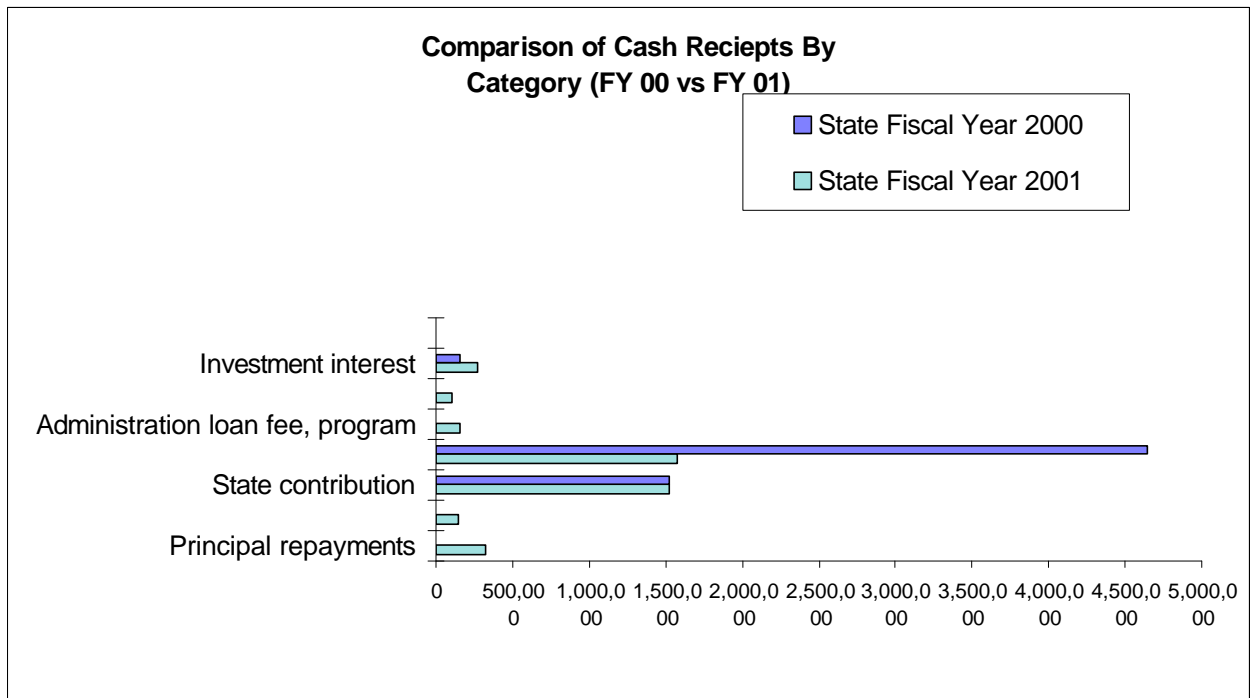
Repayments are deposited into the 422 activity code, principal from repayments, and 423 activity code, interest from repayments. As of June 30, 2001, DOH has received \$321,756.47 from principal repayment and \$145,660.33 from interest repayment. At the year-end of FY 2001, DWTRLF had a balance of \$1,167,857.49 from loan and interest repayments and investment earnings. As mentioned earlier, there were more than \$149 million in demand for construction. The balance will be lent out in FY 2002 and 2003.

C. CASH MANAGEMENT

1. Cash receipts:

Cash receipts in FY 2001 totaled \$4,088,033.36 for DWTRLF. There was a 35.34% decrease from the previous year overall. Federal contribution showed a net decrease of \$3,061,357.39. There was no loan payment requests in FY 2001. In FY 2001, the Federal contribution was used primarily for set-asides program activities.

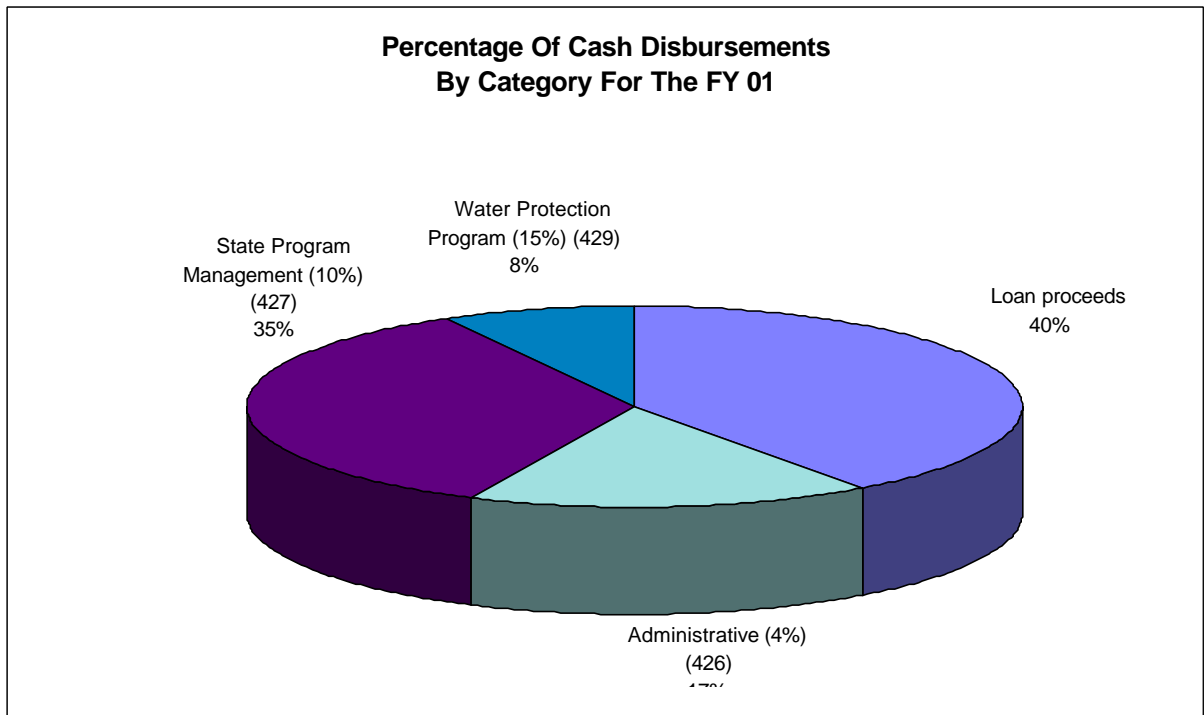
Cash receipts for FY 2000 and FY 2001 are recorded in different categories. These changes between the two state fiscal years are shown in the graph below:



In FY 2001, the DWTRLF received \$152,204.34 of program income administration loan fee and \$100,207.50 of non-program income administration loan fee. The \$152,204.34 program income administration loan fee was collected from federally funded loan portfolios. The \$100,207.50 non-program income administration loan fee were collected from state-funded loan portfolios.

2. Disbursements

The DWTRLF program disbursed \$525,945.00 of federal capitalization grant funds for the Kamole Water Treatment Plant project during the FY 2001. As of June 30, 2001, the program expenditures (cash outlays) were: \$218,221.36 for direct administrative cost of operating the DWTRLF program (4% Set-Aside), \$466,222.57 for the State Program Management (10% Set-Aside), and \$109,689.20 for the Water Protection Program (15% Set-Aside) (see the following graph).



Administration (4%)

The State did not contribute any funds for the cost of administering the DWTRLF Program. In FY 2000, DOH implemented a loan fee program to ensure operational funds in perpetuity. The charges included the salaries and benefits of the employees. The DOH does not charge any indirect costs to the DWTRLF for costs incurred from supporting activities of the State DWTRLF. In FY 2001, the Program charged \$218,221.36 to the 4% administration fund.

The program completed a priority list, developed the Intended Use Plan, and prepared the capitalization grant application. The program also worked with various county agencies to market the program and provided training sessions on the DWTRLF loan program.

Small Systems Technical Assistance (2%)

No funds were spent from the Small Systems Technical Assistance Set-Aside this past fiscal year. The DWTRLF program has been working on the start up of the DWTRLF Loan Program and other set-aside activities. The Small System sector is included in many of the other programs that are being worked on, however, no direct funds from this set-aside were spent on those efforts.

State Program Management (10%)

DOH expended \$466,136.27 to support State Program Management activities. The funds supported the Public Water System Supervision Program activities, Capacity Development and the Operator Certification program.

a. Source Water Protection Program

DOH expended \$280.00 to support the Source Water Protection Program from this set-aside. Funds were expended in the Local Assistance and Other State Programs - Source Water Assessment and Delineation set-aside for source water protection program concerns.

b. Public Water System Supervision Program

Major accomplishments in this area included travel for sanitary surveys, the acquisition and maintenance of appropriate laboratory analytical capability, and the continued administration of the operators' certification program.

c. Capacity Development

A major portion of the capacity development strategy was to provide training to managers and operators of public water systems in the State. DOH contracted with Rural Community Assistance Corporation (RCAC) to provide training. More than 100 managers and 300 operators participated in the training representing municipal and private water systems throughout the islands. Training was provided on all major islands.

The training program for managers focused on technical, managerial and financial capacity. The training also aided in preparing water system distribution operators, who had little formal training, for the distribution system operators' certification. The operator training was substantial and consisted of 36 hours of classroom instruction. The operator training was conducted throughout the year 2000, and the refresher training courses were conducted between January and June of year 2001.

d. Operator Certification

During FY 2001, DOH was able to achieve several milestones in its development of the operator certification program. DOH worked with a stakeholder group to incorporate necessary revisions to Chapter 11-25, Hawaii Administrative Rules, and conducted a public hearing in December 2000. The revised rules became effective in January 2001.

At the same time, the program was also able to conduct its normal certification activities which included: receiving and assessing applications; accepting applications for reciprocal certification when appropriate; developing examinations; assessing training events for potential continuing educational unit (CEU) credits; conducting training courses; administering quarterly certification examinations and providing certifications to qualifying applicants. More than 330 applicants applied for the new Distribution System Operator (DSO) certification. Of the 330 applicants, 275 applicants have been certified as DSO as of June 30, 2001.

Local Assistance and Other State Programs (15%) [Water Protection Program]

DOH expended \$109,689.20 to assist with the Source Water Assessment program.

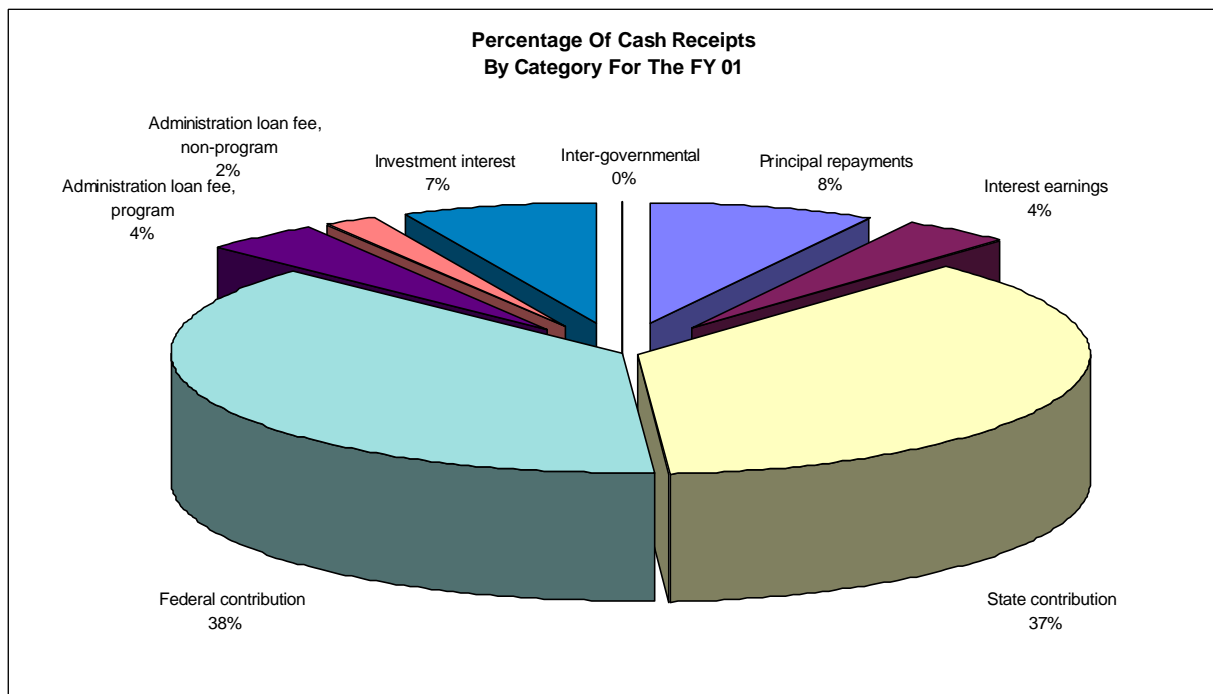
The program completed Phase II of the Source Water Assessment Contract which called for conducting four (4) demonstration projects and reporting the results of those projects to the public. The projects consisted of field assessments and delineations of four sources: Kilohana Well G (Kauai), Schofield Shaft (Oahu), Mahinahina Intake (Maui) and Chaves Spring (Hawaii), one located on each of the major Hawaiian Islands.

The program has initiated a newsletter entitled, "At the Source," to inform public water suppliers and the general public about the intent and progress of the program. Also, Source Water Assessment and Protection Information sessions were conducted by the Groundwater Foundation (GWF) to further reach the public sector and water purveyors.

3. Cash Investment

Interest earnings from investments of the DWTRLF available cash in the State of Hawaii treasury generated \$266,294.11 for the FY 2001. The total interest earnings increased by \$111,679.06 as compared to the amount earned in FY 2000.

The graph below reflects the percentage of cash receipts by category for FY 2001:



Section 38-3 of the Hawaii Revised Statutes requires collateralization of all public funds, except to the extent that the deposit at each financial institution is insured under the laws of the United States. Acceptable securities include: bonds, notes, bills and certificates of indebtedness of the United States or its agencies; bond notes or other indebtedness of the State of Hawaii or its counties or any other state or county of the United States; and any asset of the depository eligible to secure advances from the Federal Reserve Bank in an amount equal to their market value but not to exceed par value.

D. CREDIT RISKS OF THE DWTRLF

DOH has independently performed a Financial Capability Analysis for each county to assess their credit risk this year.

The following table contains specific information regarding the credit worthiness of the three DWTRLF recipients. The table shows the credit rating categories for these recipients. In summary, the DOH feels that the DWTRLF will have a high degree of solvency.

| <u>Recipients</u> | <u>Amount</u> | <u>G.O. Bond Rating</u> | <u>Percentage of DWTRLF Loan Portfolio</u> |
|--|---------------------|-----------------------------|--|
| County of Hawaii Water Board | 2,938,202.00 | AA | 24% |
| County of Maui Board of Water Supply | 7,518,330.53 | A | 62% |
| County of Kauai Board of Water Supply | <u>1,755,329.00</u> | AAA* | <u>14%</u> |
| Totals | \$12,211,861.53 | | 100% |

*insuranced

E. OTHER INFORMATION

This annual report was prepared in accordance with General Acceptable Accounting Principle. The preparation of this report required the teamwork and dedicated efforts of DWTRLF program staff. We appreciate their dedication and professionalism.

Independent Audit: The accounting firm of Grant Thornton LLP was selected by the DOH to perform the financial audit of the DWTRLF Program. The auditor's report on the DWTRLF financial statements will be published sometime in November 2001.

Program information: For any further information regarding this report, please contact the Safe Drinking Water Branch at: (808) 586-4258 or Wastewater Branch at: (808) 586-4294.

DWTRLF PROGRAM FINANCIAL REPORT

FINANCIAL STATEMENTS

STATE OF HAWAII

DRINKING WATER TREATMENT REVOLVING LOAN FUND (DWTRLF)

June 30, 2001

C O N T E N T S

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State of Hawaii
Drinking Water Treatment Revolving Loan Fund

COMBINING BALANCE SHEET

June 30, 2001

ASSETS

Cash in State Treasury:

| | |
|--|---------------------|
| Federal capitalization grant (note B) | \$ - |
| State match (note B) | \$ 4,470,913.70 |
| Principal from repayments (note B) | \$ 321,756.47 |
| Interest from repayments (note B) | \$ 145,660.33 |
| Investment interest (note B) | \$ 700,440.69 |
| Administration loan fee, program (note B) | \$ 156,296.95 |
| Administration loan fee, non-program (note B) | \$ 100,207.50 |
| Administration (4%) (note B) | \$ (15,509.73) |
| State program management (10%) (note B) | \$ (56,470.74) |
| Small systems technical assistance (2%) (note B) | \$ - |
| Water protection program (15%) (note B) | \$ (1,874.48) |
| Total Cash | <u>5,821,420.69</u> |

| | |
|--|---------------------|
| Accrued Interest (note D) | \$ 14,686.49 |
| Accrued Administrative Loan Fees, Program (note D) | \$ 18,417.56 |
| Accrued Administrative Loan Fees, Non-Program (note D) | \$ 12,125.66 |
| Loans Receivable (note D) | \$ 7,518,330.53 |
| Total Receivable | <u>7,563,560.24</u> |

| | |
|--------------|--------------------------------|
| TOTAL ASSETS | <u><u>\$ 13,384,980.93</u></u> |
|--------------|--------------------------------|

LIABILITIES AND FUND BALANCE

| | |
|-------------------|-------------|
| Liabilities | <u>\$ -</u> |
| Total Liabilities | - |

Fund Balance

| | |
|-----------------------------|----------------------|
| Reserved for encumbrances * | 1,053,342.81 |
| Unreserved - Undesignated | <u>12,331,638.12</u> |
| Total Fund Balance | <u>13,384,980.93</u> |

| | |
|------------------------------------|--------------------------------|
| TOTAL LIABILITIES AND FUND BALANCE | <u><u>\$ 13,384,980.93</u></u> |
|------------------------------------|--------------------------------|

* Breakdown of Reserved for Encumbrance:

| | |
|--|------------------------|
| 420 Activity - federal loan | \$ - |
| 422 Activity - principal repayment | \$ - |
| 423 Activity - interest repayment | \$ - |
| 424 Activity - investment interest | \$ - |
| 421 Activity - state match | \$ - |
| 425 Activity - administration loan fee, program | \$ - |
| 430 Activity - administration loan fee, non-program | \$ - |
| 426 Activity - administration 4% | \$ 26,188.48 |
| 427 Activity - state program management 10% | \$ 120,853.33 |
| 428 Activity - small systems technical assistance 2% | \$ 140.00 |
| 429 Activity - water protection program 15% | \$ 906,161.00 |
| | <u>\$ 1,053,342.81</u> |

The accompanying notes are an integral part of this statement.

State of Hawaii
Drinking Water Treatment Revolving Loan Fund

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

Year ended June 30, 2001

REVENUES

| | |
|---|---------------------|
| Federal contribution | \$ 1,578,910.61 |
| State contribution | 1,523,000.00 |
| Interest earnings from loans (note B) | 119,149.82 |
| Administration loan fee earnings - (425) (note B) | 170,621.90 |
| Administration loan fee earnings - (430) (note B) | 112,333.16 |
| Interest earnings from investment (note B) | <u>266,294.11</u> |
| Total Revenues | \$ 3,770,309.60 |

EXPENDITURES

| | |
|---|--------------------------|
| Administrative (425) | (70.10) |
| Administrative (430) | - |
| Administrative (4%) (426) | 218,221.36 |
| State Program Management (10%) (427) | 466,222.57 |
| Small Systems Technical Assistance (2%) (428) | - |
| Water Protection Program (15%) (429) | <u>109,689.20</u> |
| Total Expenditures | \$ <u>794,063.03</u> |

REVENUES OVER/(UNDER)
EXPENDITURES

| | |
|--|--------------------------------|
| | \$ 2,976,246.57 |
| Fund balance at July 1, 2000 | \$ 10,532,115.18 |
| Adjust interest and loan fee beginning balance | <u>(86,380.82)</u> |
| Adjust fund balance at July 1, 2000 | \$ 10,445,734.36 |
| Transfer(s) out | (37,000.00) |
| Fund balance at June 30, 2001 | <u><u>\$ 13,384,980.93</u></u> |

The accompanying notes are an integral part of this statement.

State of Hawaii
Drinking Water Treatment Revolving Loan Fund

SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND CASH BALANCE

Year ended June 30, 2001

| | |
|--|-------------------------------|
| RECEIPTS | |
| Principal repayments | \$ 321,756.47 |
| Interest earnings | 145,660.33 |
| State contribution | 1,523,000.00 |
| Federal contribution | 1,578,910.61 |
| Administration loan fee, program | 152,204.34 |
| Administration loan fee, non-program | 100,207.50 |
| Investment interest | <u>266,294.11</u> |
| Total Receipts | 4,088,033.36 |
| DISBURSEMENTS | |
| Loan proceeds | 525,945.00 |
| Administrative (425) | (70.10) |
| Administrative (430) | - |
| Administrative (4%) (426) | 218,221.36 |
| State Program Management (10%) (427) | 466,222.57 |
| Small Systems Technical Assistance (2%) (428) | - |
| Water Protection Program (15%) (429) | <u>109,689.20</u> |
| Total Disbursements | 1,320,008.03 |
| EXCESS OF RECEIPTS OVER (UNDER) DISBURSEMENTS | 2,768,025.33 |
| | |
| Cash Balance at July 1, 2000 | 3,090,395.36 |
| Transfer(s) out | (37,000.00) |
| Cash Balance at June 30, 2001 | <u><u>\$ 5,821,420.69</u></u> |

The accompanying notes are an integral part of this statement.

State of Hawaii
Drinking Water Treatment Revolving Loan Fund

NOTES TO FINANCIAL STATEMENTS

June 30, 2001

NOTE A - ESTABLISHMENT AND PURPOSE OF THE DWTRLF

The 1996 Amendments of the Safe Drinking Water Act (the Act), authorizes the Environmental Protection Agency (EPA) to make capitalization grants to states for the purpose of providing loans and other types of financial assistance to public water supply systems for drinking water infrastructure. The Act authorizes loan funding for construction of public drinking water systems. Under the Act, the State of Hawaii (State) will receive up to \$54 million of Safe Drinking Water State Revolving Fund capitalization grants until the year 2003.

The 1997 State Legislature established a Drinking Water Treatment Revolving Loan Fund (DWTRLF) to receive the federal capitalization grants. The DWTRLF is intended to provide loans in perpetuity to public drinking water systems for the construction of drinking water treatment facilities. Such loans may be at or below market interest rates and must be fully amortized within twenty years, with the first repayment of principal and interest occurring no later than one year after the notice to proceed for construction or the final agreement date, whichever is latest.

State of Hawaii
Drinking Water Treatment Revolving Loan Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2001

NOTE B - ACCOUNTING POLICIES

1. Financial Statements Format

The Department of Health (DOH) considers the DWTRLF to be a special revenue fund in accordance with generally accepted accounting principles. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e. both measurable and available to finance expenditures of the fiscal period. Expenditures are generally recognized when the related fund liability is incurred.

2. Administration Costs

The accompanying financial statements do not reflect certain administration costs incurred which are paid for by other sources of funding from DOH. These costs include the DOH's and State's overhead which the DOH does not assess to the DWTRLF.

3. Fund Accounts

The DWTRLF consists of the eleven activity codes described below.

a. Federal Capitalization Grants (420)

This account is designed to record federal capitalization grant loan funds encumbrances.

State of Hawaii
Drinking Water Treatment Revolving Loan Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2001

NOTE B - ACCOUNTING POLICIES (continued)

b. State Match Activity (421)

This account is designed to record State match encumbrances. Also, EPA requires that DOH transfer into this account an amount equal to 20% of the current cumulative Automated Clearing House (ACH) ceiling.

c. Principal from Repayments (422)

This account is designed to record the cash available from principal repayments and second round loan funds encumbrances.

d. Interest from Repayments (423)

This account is designed to record the cash available from interest repayments and loan encumbrances.

e. Investment Interest (424)

This account is designed to record the cash available from investment interest earnings and loan encumbrances.

f. Loan / Administration Fee - program income (425)

This account is designed to record the cash available for loan administrative fee received with loan repayment and to record the administrative program expenditure and encumbrances. The administration fee in this account is generated from the federal fund.

State of Hawaii
Drinking Water Treatment Revolving Loan Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2001

NOTE B - ACCOUNTING POLICIES (continued)

g. Administrative Cost 4% (426)

This account is designed to record the 4% administrative set-aside program expenditures and encumbrances.

h. State Program Management 10% (427)

This account is designed to record the 10% set-aside for the State Drinking Water Program expenditures and encumbrances.

i. Small System Technical Assistance 2% (428)

This account is designed to record the 2% set-aside for the Small System Technical Assistance Program expenditures and encumbrances.

j. Water Protection Program 15% (429)

This account is designed to record the 15% set-aside for the Water Protection Program expenditures and encumbrances.

k. Administration Fee - non-program income (430)

This account is designed to record the cash available for loan administrative fee received with loan repayment and to record the administrative program expenditure and encumbrances. The administration fee in this account is generated from the state fund.

4. Recording Interest

DOH established the following policies for reporting and recording interest earnings.

State of Hawaii
Drinking Water Treatment Revolving Loan Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2001

NOTE B - ACCOUNTING POLICIES (continued)

a. Investment Interest

All investment interest earnings are deposited into account (424).

b. Accrued Interest

All accrued interest is calculated based on the outstanding loan balance.

c. Loan Interest Repayments

All the interest loan repayments are deposited into account (423) regardless of the source of funds.

5. Administration Loan Fee Activity (425)

This activity account was established to receive the loan/administration fee as authorized by the ACT 218/97. The fee in this activity account is solely for the purpose of administering the DWTRLF in perpetuity.

State of Hawaii
Drinking Water Treatment Revolving Loan Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2001

NOTE C - FEDERAL FUNDING AND STATE MATCH

The following is a list of the capitalization grants awarded by EPA for the DWTRLF. This list shows the budget periods, cash draws, and cash available for each grant as of June 30, 2001.

| Budget Period | | Total | | Funds |
|---------------------|----|------------------|-----------------|------------------|
| | | Amount | Cash Draws | Available |
| 12/05/97 - 09/30/05 | 97 | \$ 12,558,800.00 | \$ 6,564,204.61 | \$ 5,994,595.39 |
| 09/24/98 - 09/30/06 | 98 | \$ 7,121,300.00 | \$ - | \$ 7,121,300.00 |
| 02/04/00 - 09/30/07 | 99 | \$ 7,463,800.00 | \$ - | \$ 7,463,800.00 |
| 02/26/01 - 06/30/08 | 00 | \$ 7,757,000.00 | \$ - | \$ 7,757,000.00 |
| | | \$ 34,900,900.00 | \$ 6,564,204.61 | \$ 28,336,695.39 |

The following is the State Match for each EPA Capitalization Grants for the DWTRLF.

| Federal | | 20% State Match | |
|-------------|-----------------------|-----------------|--------------|
| Fiscal Year | Source of State Funds | Amount | |
| 97 | Act 328/97 | \$ | 2,511,760.00 |
| 98 | Act 116/98 | \$ | 1,424,260.00 |
| 99 | Act 091/99 | \$ | 1,492,760.00 |
| 00 | Act 091/99 | \$ | 28,400.00 |
| | Act 281/00 | \$ | 1,523,000.00 |
| | Total 00 Match | \$ | 1,551,400.00 |
| | Total 20% State Match | \$ | 6,980,180.00 |

State of Hawaii
Drinking Water Treatment Revolving Loan Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2001

NOTE D - LOANS RECEIVABLE

At June 30, 2001, the DWTRLF had loans receivable from the following government entities:

One loan receivable from
County of Maui, Board of Water Supply; due
in semi-annual payments,
including interest at 1.55%
commencing not later than one year
after project completion or notice to
proceed. Final payment is due not
later than twenty years after project
completion.

\$7,518,330.53

\$7,518,330.53

As of June 30, 2001, accrued interest receivable, accrued administration loan fee as program income, and accrued administration loan fee as non-program income on loans totaled \$14,686.49, \$18,417.56, and \$12,125.66 respectively.

As of June 30, 2001, the DWTRLF has committed to make additional loans to the following government entities:

| | |
|-------------------------------|----------------|
| Water Board, County of Hawaii | \$2,938,202.00 |
|-------------------------------|----------------|

| | |
|--|---------------------|
| Board of Water Supply, County of Kauai | <u>1,755,329.00</u> |
|--|---------------------|

| | |
|-------|----------------|
| Total | \$4,693,531.00 |
|-------|----------------|

SCHEDULES OF SET-ASIDES PROGRAM ACTIVITIES EXPENDITURES

State of Hawaii
Drinking Water Treatment Revolving Loan Fund

SCHEDULE OF SET-ASIDE ACTIVITIES EXPENDITURES

Year ended June 30,

| | 2001 | | | | | 2000 |
|---|-------------------------------------|---|--|---|---------------|---------------|
| | 4% Administrative Cost 426 | 10% State Program Management 427 | 2% Small Systems Technical Assistance 428 | 15% Water Protection Program 429 | TOTAL | TOTAL |
| Personnel | \$ 201,734.67 | \$ 1,688.16 | \$ - | \$ 34,931.64 | \$ 238,354.47 | \$ 218,575.82 |
| Office and Other Supplies | 887.55 | 34,335.30 | - | - | 35,222.85 | 11,311.33 |
| Telephone | 768.09 | - | - | - | 768.09 | 436.05 |
| Advertising and Printing | 499.24 | 1,625.67 | - | - | 2,124.91 | 3,998.22 |
| Travel | 9,165.88 | 8,503.00 | - | 2,653.40 | 20,322.28 | 14,055.17 |
| Repairs and Maintenance | 221.90 | 58,219.45 | - | - | 58,441.35 | 7,894.51 |
| Equipment | 2,292.90 | 255,530.55 | - | - | 257,823.45 | 203,454.35 |
| Professional Services | 93.19 | 97,671.65 | - | 72,100.00 | 169,864.84 | 129,515.48 |
| Rental | 1,058.79 | - | - | - | 1,058.79 | 102.94 |
| Training | 846.00 | 240.00 | - | - | 1,086.00 | 240.00 |
| Miscellaneous | 153.15 | 33.75 | - | - | 186.90 | 3,577.38 |
| IPA Expenses | - | - | - | - | - | - |
| Drugs and Biologics | - | - | - | - | - | - |
| Dues and Subscriptions | 500.00 | - | - | - | 500.00 | - |
| Postage | - | - | - | 4.16 | 4.16 | - |
| Personal Services Rendered by Other State Dept. and Agencies | - | 8,375.04 | - | - | 8,375.04 | 1,947.13 |
| Non-State Employee Services on a Fee Basis | - | - | - | - | - | 82,950.00 |
| Insurance | - | - | - | - | - | - |
| TOTAL | \$ 218,221.36 | \$ 466,222.57 | \$ - | \$ 109,689.20 | \$ 794,133.13 | \$ 678,058.38 |